



ADMINISTRATION COMMITTEE

Agenda Report

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Agenda Date: 7/9/2025

Agenda Item No: 13.

FROM: Robert Thompson, General Manager
Originator: Wally Ritchie, Director of Finance

SUBJECT:

WASTEWATER REFUNDING REVENUE OBLIGATIONS, SERIES 2025A

GENERAL MANAGER'S RECOMMENDATION

RECOMMENDATION: Recommend to the Board of Directors to:

Authorize the General Manager to issue new fixed rate Certificates of Participation, to be referred to as Wastewater Refunding Revenue Obligations, in an amount sufficient to refund up to \$109,935,000 of Wastewater Refunding Revenue Obligations, Series 2016A.

BACKGROUND

A portion of Orange County Sanitation District's (OC San) debt portfolio will soon be subject to optional redemption. As interest rates are lower than the coupons on the outstanding debt, there is a potential opportunity to refinance the outstanding debt to reduce interest costs for OC San. The Wastewater Refunding Revenue Obligations Series 2016A (2016 Revenue Obligations) are subject to optional redemption on February 1, 2026. Under current market conditions, a refunding of \$109,935,000 of the outstanding 2016 Revenue Obligations would generate more than 3% net present value savings (the minimum percentage required by OC San's debt policy).

RELEVANT STANDARDS

- Comply with OC San Debt Policy - Financial Management and Procedure 201-3-1; net present value savings are at least three (3) percent of the par amount of the refunded bonds from refunding outstanding bonds

PROBLEM

The 2016 Revenue Obligations are currently accruing interest at 5.00% rates, which are higher than current market yields. The 2016 Revenue Obligations will soon be available for optional redemption on February 1, 2026. Not refunding the 2016 Revenue Obligations on, or before, such date would result in OC San paying above market rates on the 2016 Revenue Obligations.

PROPOSED SOLUTION

Assuming current market conditions as of June 16, 2025, OC San could refund the 2016 Revenue Obligations for present value debt service savings, net of all costs, of approximately \$8.6 million (equal to 7.8% of refunded principal) with a refunding amortization structured with the objective of providing level annual debt service savings.

TIMING CONCERNS

The Tax Cuts and Jobs Act of 2017 eliminated the ability of issuers to conduct advance refunding (more than 90 days prior to the optional redemption date) on a tax-exempt basis. Therefore, November 4, 2025, is the earliest practical closing date for a tax-exempt refinancing of the 2016 Revenue Obligations which is 89 days before the February 1, 2026, optional redemption date. A refunding after February 1, 2026, would result in OC San continuing to pay interest costs above current market yields.

RAMIFICATIONS OF NOT TAKING ACTION

Not refunding the 2016 Revenue Obligations would result in OC San continuing to pay above market interest costs.

PRIOR COMMITTEE/BOARD ACTIONS

March 2024 - Adopted Resolution No. OC SAN 24-01 entitled: "A Resolution of the Board of Directors of the Orange County Sanitation District authorizing the execution and delivery by the District of an Installment Purchase Agreement, a Trust Agreement, a Continuing Disclosure Agreement and an Escrow Agreement in connection with the Orange County Sanitation District Wastewater Refunding Revenue Obligations, Series 2024A, authorizing the execution and delivery of such Revenue Obligations evidencing principal in an aggregate amount of not to exceed \$157,605,000, approving a Notice of Intention to Sell, authorizing the distribution of an Official Notice Inviting Bids and an Official Statement in connection with the offering and sale of such Revenue Obligations and authorizing the execution of necessary documents and related actions"; and that the Orange County Sanitation District Financing Corporation approve the documents supporting and authorizing the Revenue Obligations in an aggregate amount not to exceed \$157,605,000.

December 2021 - Adopted Resolution No. OC SAN 21-23 entitled: "A Resolution of the Board of Directors of the Orange County Sanitation District authorizing the execution and delivery by the District of an Installment Purchase Agreement, a Trust Agreement, and a Continuing Disclosure Agreement in connection with the Orange County Sanitation District Wastewater Refunding Revenue Obligations, Series 2022A, authorizing the execution and delivery of such Revenue Obligations evidencing principal in an aggregate amount of not to exceed \$107,315,000, approving a Notice of Intention to Sell, authorizing the distribution of an Official Notice Inviting Bids and an Official Statement in connection with the offering and sale of such Revenue Obligations and authorizing the execution of necessary documents and related actions"; and that the Orange County Sanitation District Financing Corporation approve the documents supporting and authorizing the Revenue Obligations in an aggregate amount not to exceed \$107,315,000.

May 2021 - Adopted Resolution No. OC SAN 21-09 entitled: "A Resolution of the Board of Directors of the Orange County Sanitation District authorizing the execution and delivery by the District of an Installment Purchase Agreement, a Trust Agreement, a Continuing Disclosure Agreement and Escrow Agreements in connection with the Orange County Sanitation District Wastewater Refunding Revenue Obligations, Series 2021A, authorizing the execution and delivery of such Revenue Obligations evidencing principal in an aggregate amount of not to exceed \$163,775,000, approving a Notice of Intention to Sell, authorizing the distribution of an Official Notice Inviting Bids and an Official Statement in connection with the offering and sale of such Revenue Obligations and authorizing the execution of necessary documents and related actions"; and that the Orange County Sanitation District Financing Corporation approve the documents supporting and authorizing the Revenue Obligations in an aggregate amount not to exceed \$163,775,000.

ADDITIONAL INFORMATION

Outstanding Revenue Obligations

OC San currently has seven series of debt issuances outstanding (including the 2016 Revenue Obligations) in the par amount of \$572,030,000 as shown in the table below:

	Outstanding Par Amount ⁽¹⁾
Series 2024A Refunding	\$129,210,000
Series 2022A Refunding	81,620,000
Series 2021A Refunding	76,705,000
Series 2017A Refunding	65,815,000
Series 2016A Refunding	115,850,000
Series 2010C	22,830,000
Series 2010A	80,000,000
Total:	\$572,030,000

(1) June 30, 2025

(2) 2016 Revenue Obligations

Depending on market conditions, staff is proposing to refund in November 2025, up to \$109,935,000 of the 2016 Revenue Obligations maturing in years 2027 through 2039 with annual coupon rates of 5.00%, as shown in the table below. The principal payment due maturing on February 1, 2026, will not be included in the refunding and will be paid per the debt schedule.

Series	Maturity	Principal Amount	Coupon
2016A	02/01/2027	6,210,000	5.00%
2016A	02/01/2028	6,525,000	5.00%
2016A	02/01/2029	6,845,000	5.00%
2016A	02/01/2030	7,190,000	5.00%
2016A	02/01/2031	7,570,000	5.00%
2016A	02/01/2032	7,950,000	5.00%
2016A	02/01/2033	8,350,000	5.00%

2016A	02/01/2034	8,760,000	5.00%
2016A	02/01/2035	9,205,000	5.00%
2016A	02/01/2036	9,660,000	5.00%
2016A	02/01/2037	10,145,000	4.00%
2016A	02/01/2038	10,550,000	4.00%
2016A	02/01/2039	10,025,000	4.00%
	Total:	\$ 109,935,000	

Timeline

If the Board of Directors approves pursuing the refinancing of the 2016 Revenue Obligations, staff will return to the Administration Committee in September 2025 with financing documents for final approval to complete the refinancing for the 2016 Revenue Obligations. The refinancing of the 2016 Revenue Obligations is expected to close in November 2025. There is the possibility that interest rates may change at the time of approval of the financing documents and, based on then market conditions, staff may recommend a modified refinancing plan. The refunding of the 2016 Revenue Obligations will be sold on a competitive basis to obtain the lowest financing costs possible.

The following summarizes the remaining major steps to be completed for the debt refinancings:

September 2025:

- Board approval of legal and disclosure documents
- Financing Corporation approval of legal and disclosure documents
- Request ratings from bond rating agencies

October 2025:

- Receive ratings from rating agencies
- Marketing and sale through a competitive sale process

November 2025:

- Closing
- Begin debt administration

All costs involved with the refinancing, including costs for Norton Rose Fulbright, Special Counsel and Disclosure Counsel and Public Financial Management, Municipal Advisor, will be paid from the proceeds of the new refunding issues.

CEQA

N/A

FINANCIAL CONSIDERATIONS

Executing the refunding can potentially save OC San over \$800,000 per year in debt interest expenses.

ATTACHMENT

The following attachment(s) may be viewed on-line at the OC San website (www.ocsan.gov) with the complete agenda package:

N/A